

Message Text

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ACTION EB-11

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FM AMEMBASSY LONDON

TO SECSTATE WASHDC 3410

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E.O. 11652: N/A

TAGS: EFIN, UK

SUBJECT: ECONOMIC FORECASTING: INDUSTRIAL PRODUCTION

INDEX; CRUDE OIL IMPORT PRICES

REF: STATE 179865

1. INDUSTRIAL PRODUCTION. 1970 EQLS 100, 1971 EQLS 100.4, 1972 EQLS 102.4, 1973 EQLS 109.8. MONTHLY FIGURES SHOW INDEX DECLINING FROM OCTOBER 1973 (111.3) TO JANUARY 1974 (100.0--NOT A REBASING) THEN RISING GRADUALLY FROM FEBRUARY (102.9) THROUGH MAY (108.7). JUNE FIGURE SAME AS MAY. QUARTERLY FIGURES ARE AS FOLLOWS: 3RD Q 1973--110.3; 4TH Q 1973--109.2; 1ST Q 1974--103.0; 2ND Q 1974--108.6. PROJECTIONS ARE EXTREMELY HAZARDOUS IN VIEW OF PENDING ELECTION AND HIGH PROBABILITY OF ECONOMIC POLICY CHANGES IN PROMISED AUTUMN BUDGET. ONE MUST ALSO CONSIDER ASSUMPTIONS ON WORLD TRADE GROWTH (VOLUME) AND ON BRITISH RELATIVE INFLATION RATE (I.E. EXPORT PRICE STABILITY) AS WELL AS EXCHANGE RATE. WE BELIEVE THAT INDEX LIKELY TO INCREASE SLIGHTLY IN NEXT TWO TO THREE MONTHS, SAY TO 109.5, THEN LEVEL OFF FOR A PERIOD OF SIX TO NINE MONTHS AFTER WHICH IT WILL RISE SLIGHTLY. THIS IS BASED ON AN ASSUMPTION OF: (1)

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SOME STIMULATION OF DEMAND IN AUTUMN BUDGET; (2) EXPORT

VOLUME INCREASES OF 7 PERCENT IN 1974 AND 10 PERCENT IN 1975 FOR OECD COUNTRIES AS FORSEEN BY OECD SECRETARIAT IN EPC GENERAL ASSESSMENT PAPER--(CPE/74)5- OF JUNE 7; (3) SOME MODERATION OF INFLATION RATE HERE THROUGH NEW INCOMES POLICY OR SUCCESS OF "SOCIAL COMPACT." ON OTHER HAND, IF NO STIMULATIVE POLICY CHANGES WERE TO OCCUR WE WOULD SEE DECLINE IN INDEX IN FIRST HALF 1975 AFTER LEVELING OFF IN FOURTH QUARTER 1974. TO CONCLUDE, OUR GUESS IS THAT INDEX WILL SHOW SLIGHT RISE IN 1974 3RD Q, BE LEVEL IN 1974 4TH Q, REMAIN LEVEL IN 1975 1ST AND 2ND QUARTERS, WITH INCREASE IN 2ND HALF 1975.

2. PRICES FOR CRUDE OIL IMPORTS. DURING SECOND QUARTER 1974 AVERAGE VALUES DECLARED BY OIL COMPANIES WAS 35.2 POUNDS PER LONG TON CIF. AVERAGE MONTHLY FIGURES ARE: APRIL 35.5 POUNDS; MAY 34.8 POUNDS; JUNE 35.3 POUNDS. DURING APRIL-JUNE PERIOD SAUDI OIL AVERAGED 33.6 POUNDS, NIGERIAN 40.2 POUNDS, AND LIBYAN 44.0 POUNDS PER LONG TON CIF.
SOHM

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